

BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REPORT, 2014

Docket No. ACR2014

**REPLY COMMENTS OF THE
NATIONAL ASSOCIATION OF PRESORT MAILERS**
(February 13, 2015)

The National Association of Presort Mailers (NAPM) respectfully submits these reply comments in response to comments filed on the United States Postal Service's FY2014 Annual Compliance Report (ACR)(December 29, 2014).

NAPM membership includes 90 company members representing 136 mailing sites mailing in 36 states. NAPM represents mail owners preparing their own mail and mail service providers that commingle client mailings. Our members interact with, and collect mail from, tens of thousands of mail owners and combine their mail to present it as a single mailing to the Postal Service so that these clients can receive the benefits of workshare postage discounts with minimal involvement with the complex mailing standards required by the Postal Service. Collectively, NAPM represents approximately 40 percent of the total First-Class Letter Mail volume.

The members of NAPM are valued partners with the Postal Service, delivering high quality mail to the Postal Service with accurate addresses, high quality barcodes, and high density preparation levels, transported and entered where the Postal Service wants it, bypassing many initial processing functions. NAPM members are committed to ensuring this mail remains profitable and in the Postal system. We are true partners with the Postal Service: we sell their products, our customers are their customers, and, just like the Postal Service, without mail we don't have a business.

I. First-Class Mail Rate Design

Comments filed by the National Postal Policy Council (NPPC) and Pitney Bowes Inc. (Pitney Bowes) point out that the FY2014 data confirm that the current First-Class Mail rate design represents a missed opportunity to encourage the use of the Postal Service's most efficient and profitable letter

products - presort letters. These comments highlight two persistent rate design flaws in First-Class Mail: (1) a pattern of above-average increases imposed on presort mail, and (2) the failure to passthrough the full value of the workshare-related costs avoided. NAPM raised these same issues in its comments in Docket No. R2015-4.

NAPM simply does not understand the thinking behind the Postal Service rate design. First-Class Mail letter presort mail volumes have trended more favorably for the Postal Service than Single-Piece volumes. Presort mail is also significantly more profitable, realizing on average a 5.1 cent per piece higher unit contribution than Single-Piece according to the FY2014 ACR. Penalizing presort mail is financially self-defeating. The Postal Service should be doing everything it can to grow presort mail. Yet a pattern of disproportionate price increases and the continuing disparity in average cost coverages and unit contribution discourage its use. The Postal Service's practice of decreasing workshare discounts has the effect of decreasing operational efficiency, increasing prices paid by mailers, and discouraging mail volume.

NAPM agrees that the Postal Service should work to rebalance the cost coverage and unit contributions within First-Class Mail letters by lowering prices on more profitable and price sensitive presort letters. The Postal Service should also set workshare discounts equal to avoided costs. That is the only way the Postal Service can improve operational efficiency and lower total mailing costs. These changes would also help increase presort volumes, improve the Postal Service's financial condition, and help drive more mail into the automation mail stream, including increased adoption of the Full Service Intelligent Mail barcode (FSIMb).

II. Meter Mail Benchmark

Pitney Bowes and Stamps.com filed comments in support of the new Metered Single-piece Letter rate. Those comments explain why establishing a separate meter mail price is good for small business and good for the postal service. NAPM is encouraged by FY2014 data that suggest the meter rate may help stimulate increased mail volume among small business mailers.

The meter rate also serves an important function as the single-piece benchmark for setting First-Class Mail Automation Letter prices. The idea of the separate price for metered mail grew out of an observation shared by the Commission in the presort benchmark rulemaking. See Notice at 19 (citing and

quoting PRC Dkt. No. RM2010-13, Order No. 1320 (Apr. 20, 2012) at 11, n.22). A separate meter rate helps presort mailers because it increases the Postal Service's pricing flexibility in setting presort discounts. The meter rate allows the Postal Service to measure workshare-related costs avoided and to price from a more accurate presort benchmark. For these reasons, NAPM strongly supports a separate meter rate.

The American Postal Workers Union (APWU) and the Greeting Card Association (GCA) filed comments opposing the meter rate on legal grounds. The Commission should reject these arguments. The Commission previously observed that there was no legal bar to establishing a separate meter rate. *Ibid.* Additionally, the FSIMb discount serves as precedent for a policy-based pricing differential to increase mail volume and operational efficiency. Both the FSIMb incentive and the pricing differential for the meter rate should be supported and increased.

III. Cost Shifting

Comments filed by NPPC and the Association of Postal Commerce (PostCom) raise important issues regarding service impacts and cost shifting under the CPI price cap. NAPM supports the Postal Service's efforts to achieve operational efficiencies and leverage new technologies to improve service and increase the value of mail. However, NAPM agrees with NPPC and PostCom that to the extent Postal Service initiatives increase the costs of mailing (compliance costs, operational costs, development costs), those costs must be balanced with a commensurate increase in value for the mailers and their end customers. Reduced service standards also impose a cost because the mailer is forced to pay the same price for an inferior product. NAPM members are reporting service related impacts from the recent service standards changes and ongoing facilities consolidations. NAPM will continue to work with the Postal Service to address these issues and identify solutions.

IV. First-Class Mail Flats

NAPM agrees with the comments filed by Pitney Bowes regarding cost issues in First-Class Mail Presort Flats. The Commission should encourage the Postal Service to improve the First-Class Mail Presort Flats costing methodology for future Annual Compliance Reports. NAPM does not believe the current methodology provides a clear understanding of the true costs. The Postal Service should also review the eligibility requirements for flat mailings as part of an effort to drive more First-Class Mail flats

into the Full Service mail stream. Increasing the number of Full Service flats mailings would help improve service.

The NAPM appreciates the Commission's consideration of these reply comments.

Respectfully submitted,
National Association of Presort Mailers

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